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TAGS: [PGOV](#) [AS](#)  
SUBJECT: FORMER TREASURER COSTELLO CASTS A SHADOW OVER  
LIBERAL LEADERSHIP

REF: CANBERRA 157

Classified By: Political Counselor James F. Cole for reasons 1.4 (b) and (d).

11. (C/NF) SUMMARY: With the economy the dominant political issue, a growing number of Liberal and Australian Labor Party (ALP) politicians believe that former Treasurer Peter Costello, who refused the Liberal Party leadership when John Howard tried to hand it to him after their 2007 electoral defeat, will now seek that leadership. Costello has raised his public profile in recent weeks, even appearing on a prime-time, current affairs television program debating Finance Minister Lindsay Tanner on the economy. Opposition Leader Malcolm Turnbull has not gained any traction in opinion polls, and Costello, not Turnbull is the public's preferred Liberal Leader. Costello is seen by the public as a strong and competent economic manager and as the world's economic turmoil reaches Australia, the voters could look to him for leadership. END SUMMARY.

TURNBULL FAILS TO LIFT LIBERALS

12. (SBU) The major reason former Liberal Party Leader Brendan Nelson lost the leadership to Malcolm Turnbull after only 10 months was his failure to excite popular interest, as reflected in opinion polls. In September 2008, when Nelson was still Leader, "the Australian" newspaper's Newspann, which significantly influences the political agenda, had the ALP leading the Liberal-National Party Coalition 56-44 and Rudd leading Nelson 62-16 as preferred Prime Minister. Despite Turnbull's popularity with the press gallery, this has not translated into increased poll support for the Coalition. The March 10, 2008 Newspann still has the ALP leading the Coalition 56-44, and Rudd leading Turnbull as preferred Prime Minister 61-21. At the 2007 election, the ALP won with 52.7 percent of the vote. Based on current polls, if an election was held today, the Coalition would likely lose 10-15 more seats in Parliament.

COSTELLO WON'T GO AWAY

13. (C/NF) The day after the 2007 election, outgoing Treasurer Peter Costello announced he would leave politics to pursue a career in the private sector. However, he did not leave (some say he could not find a job he wanted) and he remains coy on his future. It appears Turnbull offered Costello the Treasury portfolio in February after Deputy Opposition Leader Julie Bishop relinquished the job (reftel), and last week Costello appeared on a television current affairs program where he debated the Finance Minister. He also publicly called on the Government to re-think its industrial relations and emissions trading proposals. This week's Newspann showed voters preferred Costello over Turnbull as Liberal leader 45-38. The day the Newspann was published, Turnbull and Costello had a tense exchange during a Liberal Party caucus meeting over the Government's industrial relations bill. (NOTE: Liberal Party insiders say there is little love lost

between the two politicians.)

#### ODDS FIRM FOR COSTELLO TAKEOVER

14. (C/NF) The Liberal Party's nomination of a candidate for Costello's seat is expected by mid-year. If Costello re-nominates, the political class in Australia will assume he wants to be Leader. Liberal Party Shadow Minister Andrew Robb (protect), political director the year John Howard won his first election and a leader within the caucus, told us that if Costello re-nominates for his seat (which Robb believes to be likely), he would only be doing so to seek the leadership. The Liberal Party's greatest perceived draw for voters is as an economic manager, Robb said, and the leader with the most public credibility on the economy is Costello. Robb believed that Costello could win the leadership, but he would have to actively seek it and challenge Turnbull. Liberal MPs would want to see that, in the final analysis, Costello had the guts to mount a challenge.

#### LABOR AGREES

15. (C/NF) The ALP also believes that Costello will seek the Liberal Party leadership. ALP National Political Director Karl Bitar (protect) told us, without hesitation, that he believes Labor will be facing Costello at the next election. In Parliament this week, Prime Minister Kevin Rudd and other Government ministers have begun singling out Costello for attack, as if they know who their real enemy is.

#### LEADERSHIP TURMOIL NOTHING NEW FOR LIBERALS

16. (C/NF) COMMENT: During the Hawke-Keating ALP governments of the 1980s and 1990s, the Liberals were constantly feuding. Howard and Andrew Peacock fought over the Liberal Party leadership for years. Last month, Howard stepped into the fray, reminding his party of the political maxim that "disunity is death." However, the reality of Australian federal politics, according to the ALP's marginal seats coordinator, is that the individual member of parliament is worth no more than 3-4 percentage points on election day. Voters do not even vote for the party, she said, they vote for the leader. So, nervous Liberal Party MPs will want the leader who is more popular with the public to take them to the election and at this point, that person appears to be Costello. In addition, Turnbull is not particularly popular within the Liberal caucus (he only won the leadership ballot 45-41). As in the case of Nelson before, it appears Turnbull is being stalked by the opinion polls and a challenger waiting to strike. As long as Costello remains in parliament, the press will continue to focus on the leadership, fueling further division. In July, Turnbull will have been leader as long as Nelson and Costello is expected to have re-nominated for his seat. A "perfect storm" could be brewing for the Liberals mid-year.

17. (C/NF) COMMENT CONT: Costello would likely have the numbers in the caucus if he challenged Turnbull. Most of the Right would back him as the more conservative candidate, and he would attract support from Moderates (his support base during the Howard years). However, a growing number of Liberal Party MPs are angry at Costello, seeing his reticence at disclosing his future as self-indulgent game-playing. A Costello leadership of the Opposition is not all up-side for the Coalition. He was a strong supporter of WorkChoices and was never popular as a personality with the public. Interestingly, an ALP MP from a working-class seat in Western Sydney told us this week that neither Turnbull nor Costello generated much enthusiasm among her constituents. The Liberal MP they really liked was current Shadow Treasurer Joe Hockey.

#### CLUNE